



**Network Branded Prepaid Card Association**

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September 26, 2012

Hon. Sam Johnson, Chairman  
Committee on Ways and Means  
Subcommittee on Social Security  
1102 Longworth House Office Building  
Washington, D.C. 20515

Hon. Xavier Becerra, Ranking Member  
Committee on Ways and Means  
Subcommittee on Social Security  
1106 Longworth House Office Building  
Washington, D.C. 20515

**Re: Hearing on the Direct Deposit of Social Security Benefits  
Submission of the Network Branded Prepaid Card Association**

Dear Chairman Johnson and Ranking Member Becerra:

This letter is submitted to you on behalf of the Network Branded Prepaid Card Association ("NBPCA") to address certain issues and questions raised during the September 12, 2012, hearing held before the Subcommittee on Social Security ("Subcommittee") on the Direct Deposit of Social Security Benefits.

**I. Summary of Submission**

At the hearing, statements were made that prepaid cards are not issued by banks and there is not much regulation of prepaid cards. Through this letter, we want to alert you that reloadable network branded prepaid cards (those which bear the brand of American Express, Discover, MasterCard or Visa) issued in the U.S.<sup>1</sup> are issued by banks or licensed money services businesses and are subject to extensive regulation, including Bank Secrecy Act requirements to collect and verify customer information upon account opening.

**II. About the NBPCA**

The NBPCA is a non-profit trade association representing a diverse group of organizations that take part in delivering network branded prepaid cards to consumers, businesses and

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<sup>1</sup> There are also closed loop cards, mainly gift cards, which can only be used at the retail location of the business issuing the card. Further, there are other non-reloadable network branded cards, such as incentive or gift cards, where customer verification is not done; however, these cards cannot receive a deposit of government benefits.

governments. The NBPCA was founded in 2005. Our membership includes 74 companies and touches the vast majority of network branded prepaid cards issued in the United States. The NBPCA's members include financial institutions, card organizations, processors, program managers, marketing and incentive companies, card distributors, law and media firms.<sup>2</sup>

### **III. Overview of Network Branded Prepaid Cards**

Network branded prepaid cards comprise a diverse group of regulated payment products that serve a vital public need, such as providing access to financial services to the underserved. Network branded prepaid cards bear the logo of a payment network (e.g., American Express, Discover, MasterCard or Visa). Prepaid cards are issued by banks or licensed money services businesses. Prepaid cards allow for customized payment solutions for a range of payment situations that in the past were unwieldy, expensive or impossible. Card issuers can leverage the flexibility of network branded prepaid cards to create solutions that address many common consumer needs, offering a safe, easy-to-use alternative to paper-based products such as checks, cash and even vouchers. Network branded prepaid cards are processed through an online system that allows the issuer of the card to record every use just like debit and credit cards. The information received by the card issuer on every transaction includes the place, time, date and amount of the transaction and whether it is a cash transaction or a purchase.

There are several parties involved in bringing prepaid cards to market. They include: (1) payment networks, (2) banks or licensed money services businesses that issue prepaid cards, (3) program managers that assist the issuing bank/money services business in setting up, marketing and operating the card program, (4) processors that process card programs on behalf of issuers/program managers and (5) retailers and other third parties that distribute cards to businesses and consumers. The NBPCA's website, at [www.nbpca.org](http://www.nbpca.org), offers a wealth of information about these products and consumers, companies and government agencies that use them.

### **IV. General Purpose Reloadable Prepaid Cards**

The general purpose reloadable ("GPR") card is one of the most flexible prepaid products. GPR cards are typically purchased by consumers for their personal use to pay for purchases at the point of sale or online, pay bills and/or access cash at ATMs. GPR cards may be purchased online or in retail locations from a variety of providers, as well as in bank branches. Funds may be loaded onto the card by the consumer at bank branch locations, by ACH transfer from the cardholder's or family member's bank account, at retail locations offering prepaid card reload services or by direct deposit of wages or benefits.

Convenient access to these prepaid cards and pricing often lower than other financial tools have been key drivers of the popularity of GPR cards among consumers. The cards are available in more than 200,000 retail locations and bank branches. The wide availability of these cards is particularly appealing to the 65 million Americans who are unbanked or underbanked, who have limited or no access to bank branches in their neighborhoods or cannot qualify for checking accounts.

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<sup>2</sup> This letter does not necessarily represent the position of each organization that is an NBPCA member.

## V. How GPR Cards Are Obtained

GPR cards are typically obtained in one of two ways. A potential cardholder may go to the web site of one of the many financial institutions or program managers that offer GPR cards. Alternatively, the consumer may go to a retail location or check cashing service to obtain an activation packet or temporary prepaid card. In the retail environment, the customer would hand the retailer funds for the purchase of the card and the initial amount to be loaded to the card. The retailer would then send a message to the card processor indicating that the temporary card had been purchased and the amount on the initial value load. The processor then would activate the temporary card for the value of the initial load.

Temporary cards do not provide cash access or permit the card to be reloaded until the purchaser has provided personal identifying information to the issuing bank, program manager or processor, and the identity of the cardholder has been verified as described below. Once the cardholder identity has been verified, the card is reloadable by the cardholder and cash access through the point of sale and by ATM are enabled. Following verification, the cardholder is provided an ABA routing number and a pseudo-DDA number associated with the prepaid card account, which the cardholder can provide to employers or other parties, including government agencies, for the purpose of direct depositing wages, government benefits or tax refunds to the cardholder's prepaid card account.

## VI. Regulation of Prepaid Cards and Bank Secrecy Act

GPR cards are issued by regulated banking institutions and other regulated organizations, such as money services businesses that are state-licensed and registered with the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"). Issuers of prepaid cards are subject to examination, review and supervision by either state banking or other departmental regulators, federal banking regulators, the Internal Revenue Service or a combination of agencies. Bank issuers of network branded prepaid cards are legally required by the Bank Secrecy Act ("BSA"), as amended by the USA PATRIOT Act, to have effective BSA/anti-money laundering ("AML") compliance programs that address customer identification, verification and due diligence, suspicious activity monitoring and reporting, currency transaction reporting as well as other BSA reporting and recordkeeping requirements.

Additionally, under a recent final rule issued by FinCEN addressing prepaid access, "providers" and "sellers" of most GPR cards are classified as money services businesses and are themselves required to maintain effective BSA/AML compliance programs that address customer identification and verification, suspicious activity monitoring and reporting, currency transaction reporting as well as other BSA reporting and recordkeeping requirements.

As part of their BSA/AML compliance programs, issuers and providers of GPR cards must collect the following four pieces of personal information from a prospective cardholder: (1) name, (2) street address, (3) identification number and (4) date of birth. This information is typically collected by the issuing bank, program manager or processor when the purchaser contacts them to convert the temporary card to a fully functional card. After this information is collected, the issuing bank, program manager or processor will generally use "non-documentary" verification systems in an attempt to verify the prospective cardholder's identity. This information provided is verified through the use of one or more identity verification services that are the same services used by financial institutions and brokerage firms to verify new accountholders' identities. If the information is successfully verified, the cardholder is approved

for a fully functional GPR card. If the information is not successfully verified through non-documentary means, the issuing bank, program manager or processor will either not establish the account or will require the prospective cardholder to provide additional information, such as a copy of a government-issued identification document, prior to approval of the cardholder. If the issuing bank, program manager or processor cannot successfully verify the identity of the prospective cardholder, the account is not established. If customer identification and verification are failed, any initial funds loaded to the card are either returned to the cardholder or the cardholder can spend these funds, but no additional funds may be loaded to the card.

Program managers and processors are under the supervision of the financial institution which issues the prepaid card. The financial institution is subject to regulatory requirements and payment network rules regarding oversight and audit of third party service providers used by the financial institution in offering its prepaid card program. Further, the issuer's regulators have the authority to audit the performance of program managers and processors for compliance.

As for consumer protections, under a rule issued by Treasury Financial Management Services, where a Federal payment is to be deposited to an account accessed by the recipient through a prepaid card, the prepaid card must meet the following requirements: (1) the account must be held at an insured financial institution; (2) the account must be set up to meet the requirements for pass-through deposit or share insurance for the benefit of the recipient by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; (3) the account may not be attached to a line of credit or loan agreement under which repayment from the account is triggered upon delivery of the Federal payments; and (4) the issuer of the card must comply with all of the requirements, and provides the holder of the card with all of the consumer protections, that apply to a payroll card account under the rules implementing the Electronic Fund Transfer Act.

## **VII. Identity Theft and Best Practices**

It was clear from the Subcommittee hearing on the direct deposit of Social Security benefits that there is increasing concern regarding fraud and the theft of Social Security benefits from unsuspecting consumers. The underlying cause of misdirection of government benefits is identity theft – whether through dumpster diving, mail theft, social engineering, pretexting, phishing or data breach – where fraudsters have obtained information regarding a beneficiary sufficient to successfully pass the standard information collection and verification procedures that the financial services industry has in place in connection with account openings. The fraudsters also have sufficient information to initiate a change with the agency on the beneficiary's account information resulting in a misdirection of the direct deposit to a fraudster's account.

To effectively address this issue, several steps need to be taken:

- a. The financial services industry and the agencies need to do a better job educating beneficiaries about the risks of identity theft and measures beneficiaries can take to reduce their risk of ending up being a victim of identity theft.
- b. The financial services industry and the agencies need to work together to identify identity theft red flags and to develop and implement best practices (by both the financial services industry and the agencies) to better identify potential identity theft in connection with account openings, processing of deposit account change requests from beneficiaries and

receipt of agency funds. These best practices must reach across all agencies and all methods for changing direct deposit of benefits to ensure fraudsters do not just modify their methods of attack. In 2011, the NBPCA formed the Prepaid Anti-Fraud Forum ("PAFF") to organize industry participants against new forms of fraud. The PAFF has started developing best practices for prepaid card issuers and processors to implement to address identity theft in connection with benefits misdirection.

The NBPCA has been working with the Treasury Financial Management Service and the Social Security Administration to develop and implement the procedures necessary to reduce the risks of benefits misdirection.

### **Conclusion**

Social Security benefits fraud is a problem that cuts across many entities and affects many citizens. No single solution will work to stem the cause of such fraud; instead, we urge cooperation and coordination between federal benefits agencies, law enforcement and the financial services industry to address and prevent Social Security benefits fraud. We thank you for the opportunity to provide the Subcommittee with information on this important topic and we are available to answer any questions you or your staff may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Trusko', written in a cursive style.

Kirsten Trusko

President and Executive Director

Network Branded Prepaid Card Association (NBPCA)